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State Tax Revenues Fall as Recession Bears Down

State tax revenues fell in the last quarter of 2008 as rising unemployment, falling business profits and a drop in consumer spending left many states with their largest deficits in a generation.

Estimates for tax revenues, released Friday by the Nelson A. Rockefeller Institute of Government at the State University of New York system, cover the 36 states that have released fourth-quarter tax data.

The states suffered declines in most sources of revenue. Personal-income taxes eked out a 0.1% gain, based largely on income earned before the recession deepened. Sales taxes were down 6.5% in the quarter compared with a year earlier as consumers cut back. Corporate income taxes fell 22.1%, reflecting falling profits.

"It's just astoundingly bad," said Don Boyd, senior fellow at the Rockefeller Institute. "I suspect [revenue] is going to be worse than many states were thinking."

Budget problems have become the chief priority for governors and legislatures in many states. California Gov. Arnold Schwarzenegger discussed the state's \$42 billion budget gap for much of his annual address to legislators Thursday, calling budget woes a "rock upon our chests."

On Friday, the state moved closer to delaying tax refunds and other payments to preserve dwindling cash. More than \$3 billion in payments, including tax refunds due to millions of individuals and businesses, would be delayed beginning Feb. 1 unless state leaders act on the budget soon. Also facing payment delays would be state vendors, local governments expecting aid for social programs and individuals expecting rent or food assistance.

Arizona's state treasurer said this month that the state could soon be out of money by February, which would force the state to borrow money to pay its bills.

The recession is squeezing states from two sides: Falling tax revenues have left them with less money, while the rise in unemployment has increased demand for costly social-assistance programs.

Unlike the federal government, most states are required to balance their budgets, forcing states to make tough choices such as furloughing employees, instituting pay freezes and cutting funding to normally untouchable programs like education and health-care funding.

Some states have proposed sharing: On Tuesday, the governors of Minnesota and Wisconsin announced they are looking for ways to share everything from heavy equipment to software and road salt in hopes of easing both states' budget woes.

Many states have essentially put off budget negotiations in anticipation of state aid in the stimulus package being urged by President-elect Barack Obama.

By Conor Dougherty